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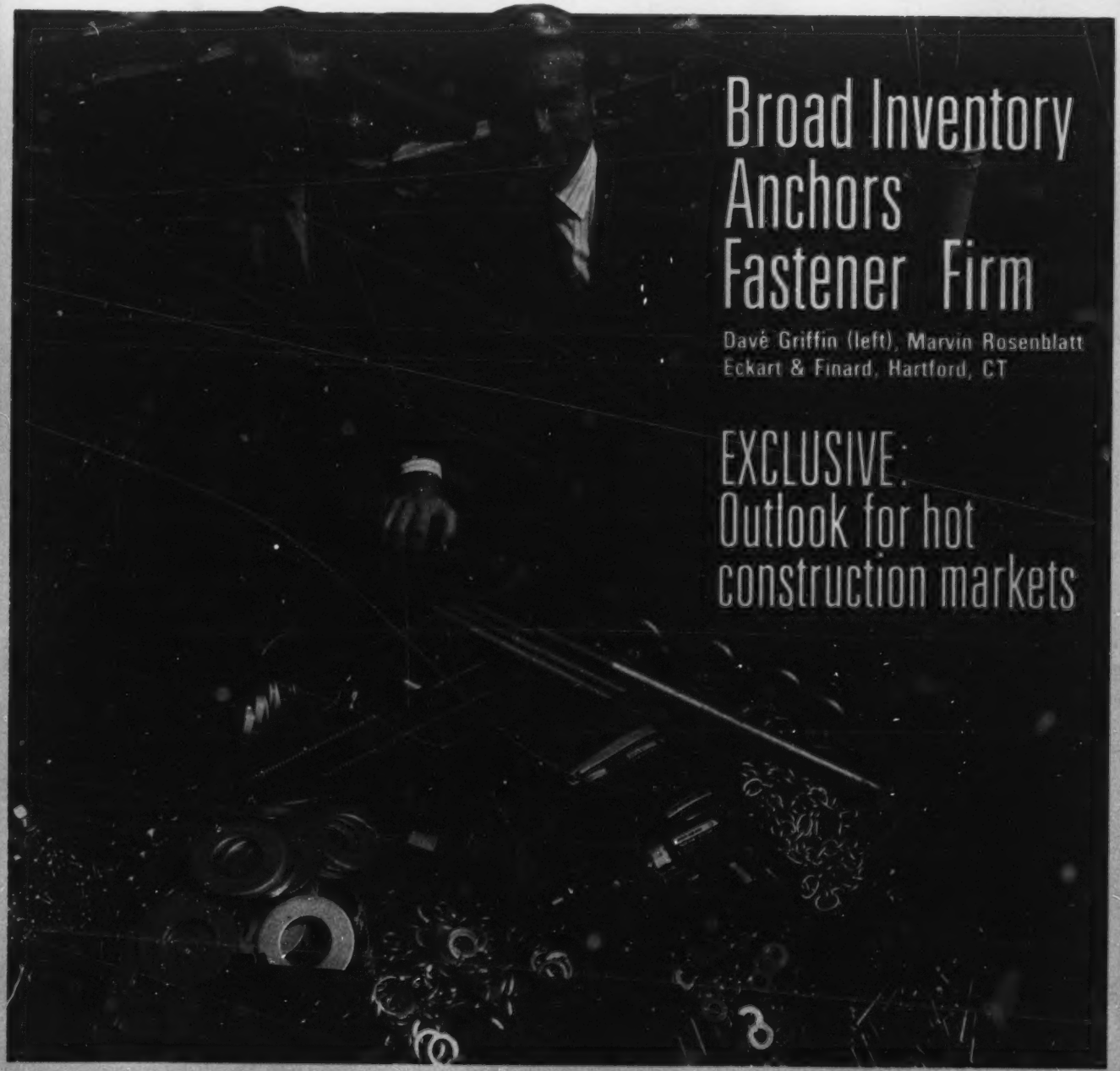
OCTOBER 1989
A CAHNERS PUBLICATION

Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

STAFDA Convention Preview



Broad Inventory Anchors Fastener Firm

Davè Griffin (left), Marvin Rosenblatt
Eckart & Finard, Hartford, CT

EXCLUSIVE: Outlook for hot construction markets

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 10 OCTOBER 1989 A CAHNERS PUBLICATION

Dave Griffin and Marvin Rosenblatt covet their reputation for having that 'hard-to-find' fastener.

Cover photography by Peter Silvia

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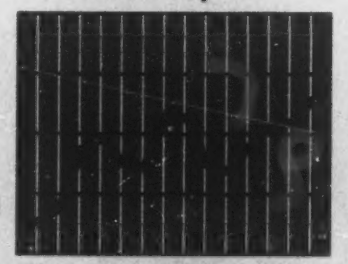

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the program, he said.

"The IMC is the only industry event that provides plant and design engineers, OEM's, distributors, maintenance specialists, and other end users with an in-depth understanding of how all three motion control technologies can more effectively interface," Berey said.

Kicking off the IMC conference as the show's keynote speaker will be Frank Bauchiero, president of the Warner Electric Div. of Dana Corp. and vice president of Dana Corp.'s North American operations. Bauchiero's talk will explore motion control's role in keeping U.S. manufacturing globally competitive.

Bauchiero's presentation will be followed later that day by a series of introductory educational seminars. They will include sessions on software driven motion control, the mechanics of motion for the non-mechanical engineer and fluid power for the non-fluid power engineer.

Other programs include sessions on selecting and applying electronically controlled fluid power systems, applications for digitally regulated DC drives and the fundamentals of programmable logic controllers. A series of case histories on how various companies have successfully combined the technologies will also be featured at the conference.

For more information on the IMC, call either the National Expositions Co. at (212) 391-9111 or the show's sponsors, the Power Transmission Distributors Assn. at (312) 825-2000 or the Fluid Power Distributors Assn. at (215) 564-3484. □

Distributors moving toward EDI and bar coding

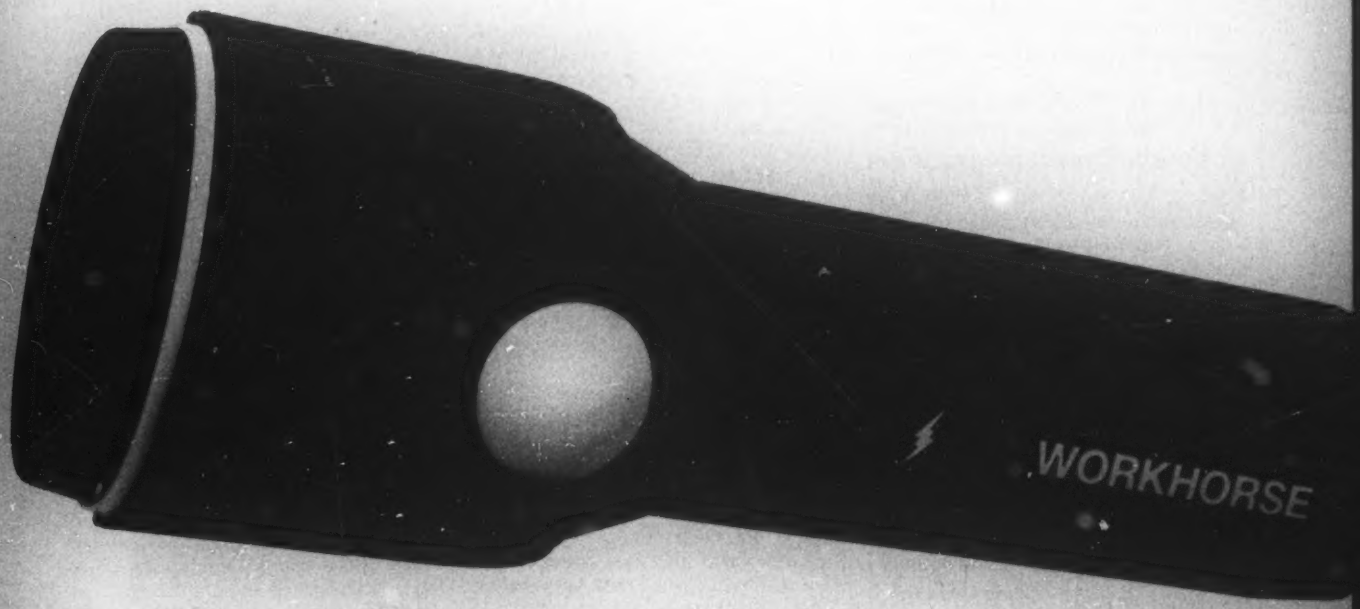
ATLANTA, GA—A Touche Ross & Co. study says that nearly 40% of industrial distributors surveyed use electronic data interchange (EDI) with customers, primarily to transmit purchase orders.

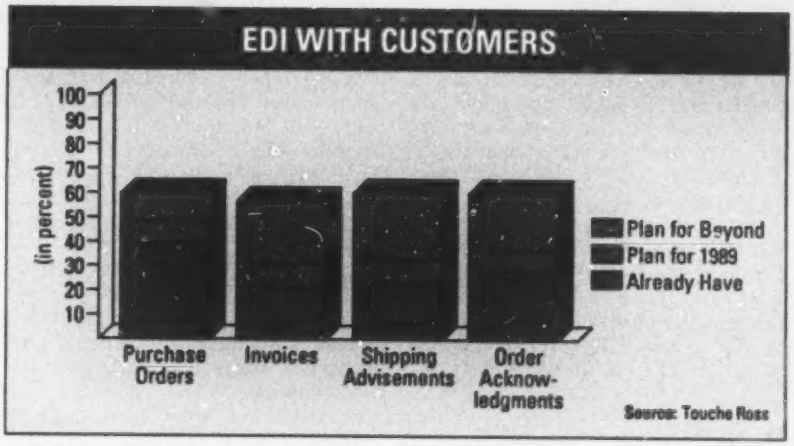
Project Manager Paula Larson-Charles, said that the study also finds that an additional 35% of the respondents surveyed plan to implement EDI during the next few years (see EDI charts).

Larson-Charles pointed out that while distributors tend to be moving quickly to implement EDI, less than 5% use bar coding for receiving, and about 10% barcode products shipped to customers.

On the plus side for bar coding advocates, more than 50% of those surveyed said they are either implementing bar coding in 1989 or plan to install a system sometime during the next few years (see UPC chart).

"The fact of the matter is that with distributors under increased pressure to reduce costs and increase services, those companies that don't add EDI and bar coding systems in the next few years will be at a com-





Nearly 40% of industrial distributors surveyed by Touche Ross said they use EDI on purchase orders for customers.

petitive disadvantage," Larson-Charles said.

The Touche Ross survey is based on responses from 550 wholesale distributors, 270 of whom are industrial distributors. Companies participating in the survey ranged from less than $20 million in sales/year to well over $200 million/year.

Larson-Charles noted that the purpose of the survey was twofold—to research the impact of technology on wholesale distribution as well as to assess the general state of the industry.

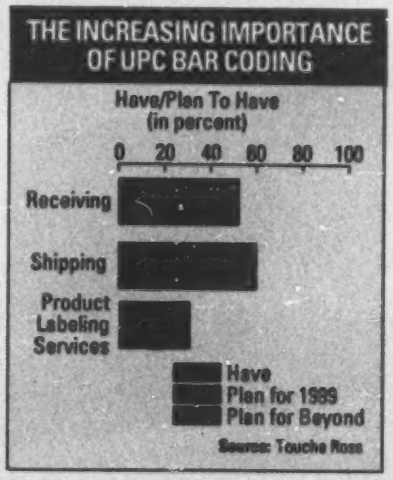
Along with the findings on EDI and bar coding, the survey reported that on average, industrial distributors spend about 1% of sales on management information systems. This is well above wholesale distribution as a whole, which was at about .5%. "What this tells us is that most industrial distributors recognize the challenge to their businesses and are responding appropriately," Larson-Charles noted.

In terms of overall outlook for the future, industrial distributors as a group tend to be fairly optimistic. According to the survey, about 93% of the electrical, hardware and machinery respondents expect the economic health of North America to remain the same or improve in the years ahead.

Ninety-seven percent of the companies surveyed are planning for growth—72% through adding new product lines and 46% by adding branches. Over 85% of the respondents expect their sales to increase, with 40% expecting sales increases between 3 to 10%.

Despite such upbeat expectations, the survey also shows the more realistic side of distributors. For example, a majority of those surveyed agreed that the industry's competitive situation will worsen. And only 26% of the respondents believe that business will increase due to the U.S./Canada Free Trade agreement. Most of the respondents who said that the lifting of trade barriers would help their businesses were from the Northeast.

For more information call (404) 586-6716. □



While few distributors reported having installed bar coding, more than 50% have plans to implement bar coding in the years ahead.

Adams Nut & Bolt hires new marketing and PR specialist

MAPLE GROVE, MN—Distributors have talked for years about the need to become more involved in marketing. While most companies are still talking, Adams Nut & Bolt Co. took a bold step recently by hiring a bonified marketing specialist.

The company hired Ronald Green, a marketing professional with more than five years of experience in public relations and marketing communications, most notably with G.R. Barron & Co. of St. Paul, MN, and Delta Dental Plan of Minnesota.

In his new position, Green will be responsible for creating marketing, advertising and public relations programs. This includes writing a monthly newsletter, developing product catalogs, brochures and fliers, handling all of Adams' media relations, and coordinating the company's trade show efforts.

"I know this sounds like a lot of work," Green said. "But with my solid background in public relations writing and advertising copywriting and production, I'm confident that I can accomplish all of these varied tasks. I look at this new job as a challenge."

This is the plan. With the aid of a desktop publishing system, Green will create a series of direct mail pieces that will go out to more than 5,000 potential and current accounts on a monthly or as needed basis. The accounts being targeted by Adams are MRO and small to mid-sized OEM firms.

Respondents will be contacted by Green, who will screen the prospects and qualify them for the outside salespeople. The hope at Adams Nut & Bolt is that an outside salesperson will only have to make one or two calls to set up the account. All subsequent calls could then be managed by an inside salesperson, with an outside person visiting the account once or twice each year.

According to Mark Alexander, vice president of Adams Nut & Bolt, the company has hired some new inside salespeople and shifted some

America's Hottest Construction Markets

Across the country, STAFDA distributors are feasting on a smorgasbord of new construction projects

By John G.F. Bonnanzio and Robert G. Clifton

The nation's construction distributors are indulging in a wide variety of local conditions which are driving strong growth in residential and commercial markets. Based on conversations with members of the Specialty Tools and Fasteners Distributors Assn. (STAFDA), many businesses credit strong regional sales to primary employment growth in manufacturing; white collar jobs in the service sector; retirement communities; population shifts to avoid high costs and heavy congestion and; "soft tech" business growth such as telemarketing.

In addition, when STAFDA distributors meet next month in Dallas for their annual convention (see p. 9), most will discover the rising importance of international trade on their businesses—specifically with Pacific Rim countries. As wave of offshore companies continue to establish offices, warehousing and industrial plants in the U.S., distributors report that new office and housing construction seems to follow, making a good situation even better.

In compiling this list of *ID*'s *Hottest Construction Markets*, data was provided to the magazine by Cahners Economics. In its recently issued report, "Top U.S. Construction Markets For 1990," Cahners monitored the value of building permits between January and May of 1988 and compared them to 1989 data. The resulting percent change in eight different construction markets is the basis for each of the top five rankings. In many instances, percent increases from one year to the next are immense. This is to be expected as one large project could come on the heels of little or no building activity, thereby creating a swift, upward spiral.

By employing this methodology, large geographic areas, such as Los Angeles, Chicago, San Diego, Philadelphia, etc., were intentionally squeezed from the survey. This led to the "discovery" of many smaller, perhaps more profitable markets, that would otherwise be overshadowed by giant-sized cities with far greater competition.

Although many of the municipalities listed are currently experiencing various kinds of construction booms, some will only last the life of a particular project, while others could last years. This ranking of "hot" construction markets (based on Department of Commerce data), is only a snapshot in the life of any city. For additional information on these markets, Cahners Economics sells copies of its construction report for $50. To order a report contact: Gabriella Fodor, Cahners Economics, P.O. Box 51, Newton, MA 02158; or call 617-558-4397.

Hot construction markets

NEW RESIDENTIAL
(% increase)

Portland, OR	56
Miami, FL	51
San Francisco, CA	46
Naples, FL	40
Oakland, CA	39

The lumber business in the Pacific Northwest has snapped back thanks largely to export trade with the Far East. According to June Quigley of International Nail and Staple, new "techtronics industries" are primarily responsible for **Portland's** steadily improving economy. In turn, a residential boom in single family homes and apartments has meant brisk business for distributors.

RETAIL CONSTRUCTION
(% increase)

Rochester, NY	199
Lake County, IL	170
Buffalo, NY	169
Knoxville, TN	163
Ft Lauderdale/ Pompano Beach, FL	130

More than just malls are going up in **Rochester.** The city's "Can of Worms," its so-called downtown highway system, is amid a 3-year facelift, while a new sewer system slowly snakes its way north toward Lake Ontario. Mark Credit of Harmco Fastener says that the city's growth is broad-based and, despite tough times at Kodak, a Rochester mainstay, the photography company continues to expand its facilities.

NEW NON-RESIDENTIAL
(% increase)

Knoxville, TN	126
Ft. Worth, TX	114
New York, NY	109
Honolulu, HI	101
Cleveland, OH	79

Tennessee is quickly becoming a hub for distribution services of every variety. Given its single-day trucking access to much of the Sun Belt, the state is ideally situated to serve the nation's population shift. With good infrastructures and expanding auto manufacturing, **Knoxville** distributor S.G. Walker of AAA Rental Center credits a TRW-Japanese venture and another by Nippondenzo for steadily rising sales.

INDUSTRIAL CONSTRUCTION
(% increase)

Dayton, OH	1126
Scranton, PA	606
Orlando, FL	346
Rochester, NY	278
Sacramento, CA	233

A 40-mile stretch of I-75 linking Cincinnati with **Dayton** is filling in with new businesses (some of it high-tech), reports Gary Naylor of Dayton Winfastener. On the one hand, Panasonic has recently opened a TV tube manufacturing plant in Troy. On the lower-tech side, says John Golub of Dills Supply, Honda is still expanding in Marysville, about 60 miles away. In addition, Elamo, an aircraft tubing plant, has resurged since its purchase by GE.

Shifting population rebuilds construction market

For a time, it seemed as if the nation's Rust and Frostbelts were on the verge of resurrection. Since the dollar's slide in 1985, export business has soared keeping industrialized states busy with new orders, new equipment, comfortable wages and even new housing. With the ability to eke out a living in factory towns once gasping for breath, workers in the Midwest and Northeast decided to stay put—at least for a while.

Although population gains in the Sunbelt have continued to outpace all other regions during the 1980s, this experience has not been universal. In oil dependent states such as Louisiana, Oklahoma, Mississippi, Texas and Colorado, the second half of the decade has been less than prosperous. At the same time, California, Arizona, Nevada, Georgia and Florida have been absorbing much of the nation's migration and immigration.

These large population shifts have had an enormous impact on residential and commercial construction, and will continue to affect the types of products distributors sell from region to region. For example, during the 1970s Sunbelt cities traditionally experienced more new nonresidential construction than reconstruction, while the Frostbelt's mainstay were additions, alterations and conversions to pre-existing buildings. In the 1980s, this trend was reversed. As the Frostbelt's economy expanded, so did its need for new construction, while the Sunbelt found reconstruction a cost effective alternative. However, for the 1990s, the new construction/reconstruction mix is expected to resemble the 1970s pattern, as the Frostbelt's growth slows, and the Sunbelt's demand for new construction expands.

One distributor enjoying the effect of the Sunbelt's burgeoning construction business is Dennis Shields of San Diego's Star Tool and Supply Co. Shields reports that company sales multiplied at a 25% compound annual rate between 1974 and 1987, and after two "flat" years, will again reach that mark in 1989.

Keeping in mind that California's population rose 19% between 1980 and 1988, San Diego's construction market is more easily understood: last year the city ranked third nationally in new residential construction; tenth in office construction; ninth in retail and industrial construction, and; sixth in hotel construction. Viewed another way, it would take all the new residential construction in Milwaukee, Kansas City, Ft. Worth, Daytona Beach and Ft. Myers to equal San Diego's building boom.

To paint a broad picture of the nation's construction market, the map (right) illustrates just how fickle the building trades can be.

OFFICE CONSTRUCTION
(% increase)

DesMoines,IA	1478
Albuquerque, NM	720
Cleveland, OH	658
Portland, OR	338
Lake County, IL	265

Although Irv Bradley of Bradley Fastener & Supply only services **Des Moine's** residential market, he confirms that the city's building activity is on the rise while wood framing is "on hold." No longer dependent on farming, Des Moines is second only to Hartford, CT as an insurance mecca. Currently under construction: the Bankers Life Insurance Co's. 44-story complex—the city's largest building.

HOTEL CONSTRUCTION
(% increase)

Akron, OH	3659
Scranton, PA	1819
Lancaster, PA	1026
Dallas, TX	726
Oakland, CA	466

Ranked a mere #201 in the nation for hotel construction in 1987, **Akron** has since skyrocketed to 37th-place. What's the city's main attraction? Hard to say, but thanks to a 1200 room Sheraton under way in an Akron suburb, more people than ever will find a place to stay. This is good news for Harry Schindler of Concrete Cutting Systems, who also notes brisk business in residential, commercial and industrial markets.

NON-RESIDENTIAL REMODELING
(% increase)

Las Vegas, NV	377
Ft. Worth/ Arlington, TX	122
San Antonio, TX	115
Birmingham, AL	95
Memphis, TN/ AK, MS	78

People from around the country are finding that desert real estate is cheaper than elsewhere, and there's plenty of it. Says James Feeney of E & M Industrial Hardware, retirees are flocking to the Del Webb development in Summerlin, which some expect to grow bigger than Sun City. In **Las Vegas**, the nation's largest hotel, the Excalibur, will eventually sport some 4000 rooms overlooking, what else? The desert.

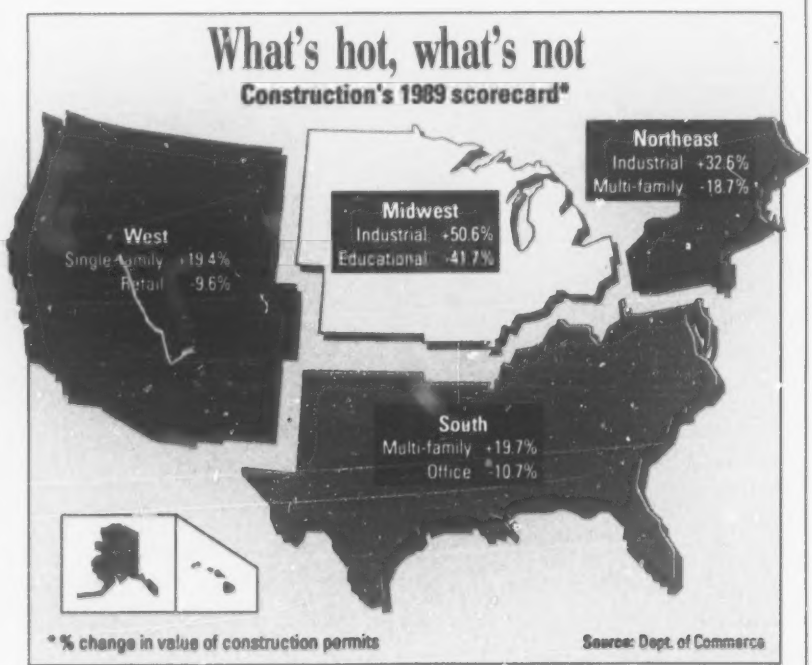
RESIDENTIAL REMODELING
(% increase)

Richmond, VA	81
Raleigh, NC	74
Honolulu, HI	53
Detroit, MI	42
Anaheim, CA	35

Pat Bevilla of BETCO Supply Co. says that good schools, mild weather and foreign investment have made a lot of people take a closer look at Virginia, and in particular **Richmond.** During the first six months of 1989 $2.3 billion was invested in the state creating 9,000 new jobs and the need for more housing. U.S.-Japanese joint ventures include three new factories turning out everything from copiers to soup mixes.

Unlike other industries, rising tides do not always lift all of construction's various fortunes equally high. What dictates a particular region's destiny are shifts in population, employment and income growth, all set in the context of an area's current supply of commercial or residential inventory stock.

With that in mind, 1989's construction activity has shaped-up as follows: residential building in the **Northeast** is widely thought to have peaked (highway and bridge reconstruction is booming, with billions of dollars in projects inevitable); home building, nonresidential and institutional building in the **Midwest** has been flat; the **South** has bottomed-out with stagnant residential and generally weak office construction, and; the **West** continues to outpace the rest of the nation with a strong showing in single-family construction/reconstruction as well as nonresidential reconstruction. —JGFB



BUSINESS REPORT

BY KRIS BLEDOWSKI

Machine tools shipments peak

Distributors should target the market

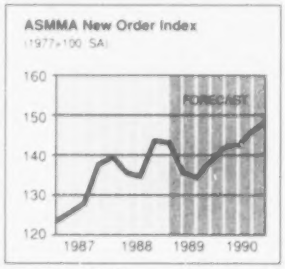
Shipments of machine tools peak late in the business cycle, usually 24 to 30 months behind the 'leading indicator', a group of economic sectors which anticipates upturns and downturns of the economy. So it is not surprising that orders of machine tools were up 70% in late 1988, precisely during the time when most industries started to slow. Since then, cutting tool orders dropped sharply from an annual rate of $2.7 billion in December 1988 to $2.4 billion in June of this year. Forming tools peaked a bit later and the slowdown for this category has just begun.

While orders are decelerating, shipments gain every month. Last year's growth rate of 3.8% will skyrocket to 30% in 1989 as the huge order backlog is filled. We forecast sales of both cutting and forming tools to reach $3.1 billion by year end, compared with $2.4 billion last year.

As the machine tool industry scrambles to satisfy the demand, it may be the ideal time for industrial distributors to target this market. Capacity is strained and cannot be easily expanded. Many companies will be trying to work overtime or speed up the production line. Their demand for industrial products is certainly going to increase dramatically. Leadtimes for tools are still high although they have dropped somewhat from the peak of over seven weeks late last year. We forecast leads to stay put at over five weeks through most of next year.

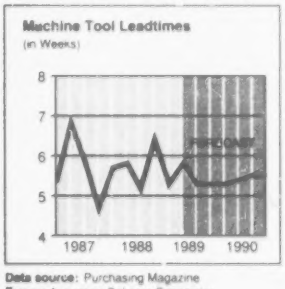
Prices of cutting tools have shot up since the 2.8% annual rate of 1987. Last year's 4.4% inflation rate is going to be topped marginally this year before falling to the 2%+ range in 1990. It is interesting that prices were unchanged for the past three months, signalling a leveling off of capacity pressures. Both wages and materials prices have been moderate lately and are likely to stay that way for the remainder of the year. The inflation rate for forming tools was less pronounced than for cutting tools, in both 1987 and 1988. But, look for wholesale prices for forming tools to rise 4.2% this year.

On the machine tool side stable export markets provide the demand when domestic consumers curtail their orders. Still, they will continue to peak late in the cycle, as is the case right now. □

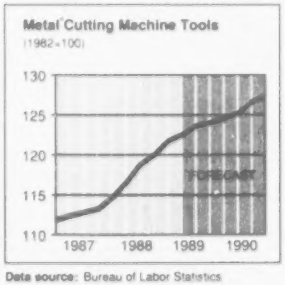


Data source: ASMMA
Forecast source: Cahners Economics

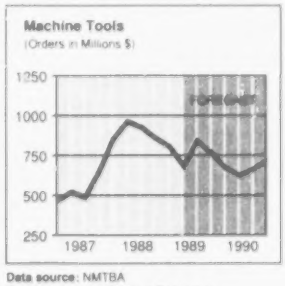
Data source: I.D.A.
Forecast source: Cahners Economics



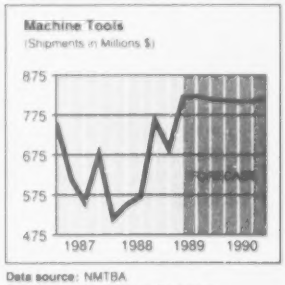
Data source: Purchasing Magazine
Forecast source: Cahners Economics



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics



Data source: NMTBA
Forecast source: Cahners Economics



Data source: NMTBA
Forecast source: Cahners Economics

(1977=100)	SALES July 1989	SALES June 1989	SALES July '89 vs July '88 % change	RECEIVABLES July 1989 days	INVENTORY July 1989 % increase	INVENTORY July 1989 % decrease
TOTAL	175.5	184.0	8.1	43.0	4.3	4.2
EAST	161.7	167.3	13.6	49.1	2.6	3.8
SOUTH	253.5	218.6	16.5	45.1	4.4	5.3
CENTRAL	142.0	149.8	5.1	41.3	4.4	3.9
WEST	196.5	215.7	1.4	38.2	2.0	3.7

SOURCE: Industrial Distribution Assn.

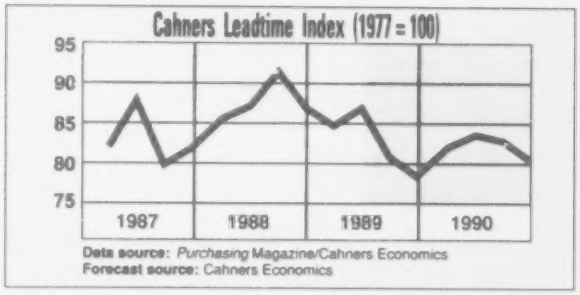
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Supply conditions ease a bit

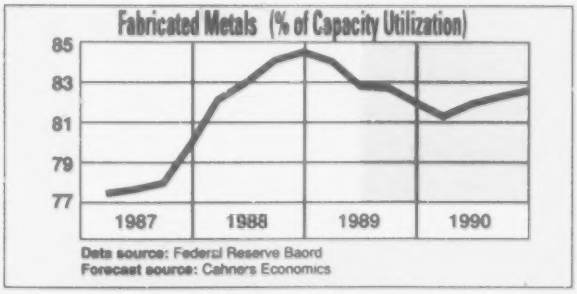
But capital goods sector is still hot

Leadtimes have fluttered over the past few months but the trend is clearly downward. Nearly 70% of the leadtimes reported in July of 1989 were shorter than those reported in July of last year. Over 60% were shorter than in June of this year as well. Out of the 125 categories comprising the Cahners Composite Index, no leadtime increased by more than a week between June and July. In contrast, 11% of the 125 leadtimes tracked fell by more than a week. Leadtimes for most metals, industrial machinery, and components declined overwhelmingly between June and July. Nearly 60% of the purchasing managers surveyed indicated that they are holding inventories steady, and nearly 30% indicated that some inventory liquidation is under way. Cahners leadtime index is expected to continue on this downward path, declining nearly 6.0% this year and 1.0% in 1990.

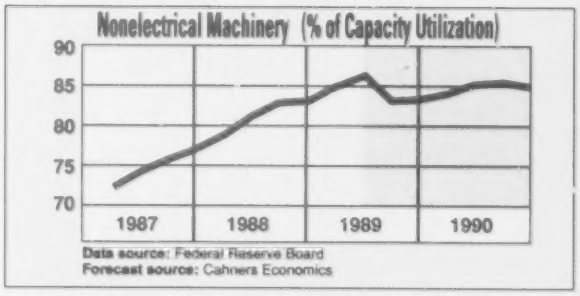


Capacity utilization was unchanged in July after dropping to 83.8% from 84.1% in May. The economy is definitely slowing down, although some sectors which peak late in the business cycle, like capital goods, are still strong. The strongest growth sectors during the second quarter were business fixed investment and trade, continuing the economic growth trend that has been in place for over two years. Business investment continued to expand sharply for equipment while spending on structures declined 10%. Exports of goods and services remained strong.

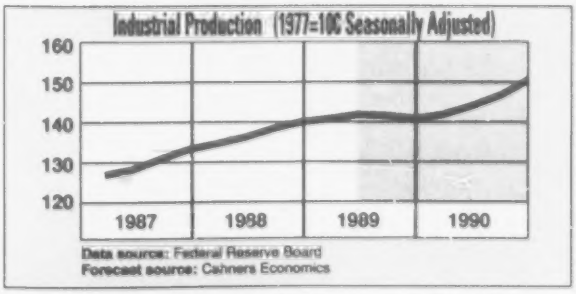
While there are signs that the economy is cooling off in many industrial sectors, inflationary pressures, common late in the business cycle, seem to be abating. Producer prices fell 0.4% in July after a modest rise in June. Also important is a moderate pace of inflation for intermediate materials, which bodes well for prices at the producer and consumer stages. □



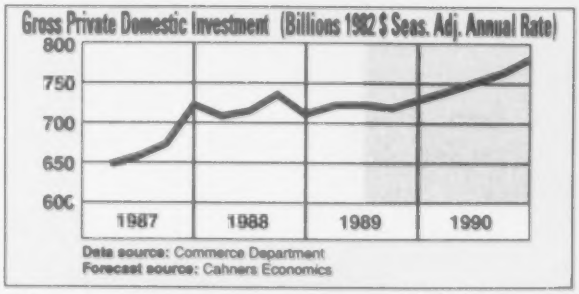
Capacity utilization eased a bit in the second quarter to 82.7%, down from 83.9% in the preceding period.



Utilization of capacity for nonelectrical machinery went up to 86.1% reflecting strength of capital goods industries.



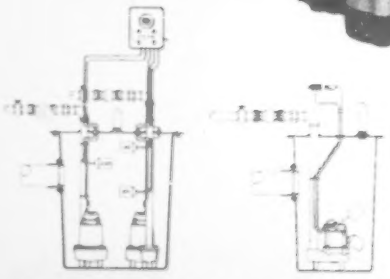
We forecast industrial production to grow only 2.8% this year, but will pick up speed later in 1990.



Private domestic investment will stay around $720 billion this year, marginally higher than in 1988.

THE MOVERS

Move up to the Little Giant sewage/effluent pumping system



Offer a complete system with

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Little Giant Pump Company — Subsidiary — Tecumseh Products Company

LITTLE GIANT

3810 N. Tulsa ■ Oklahoma City, OK 73112
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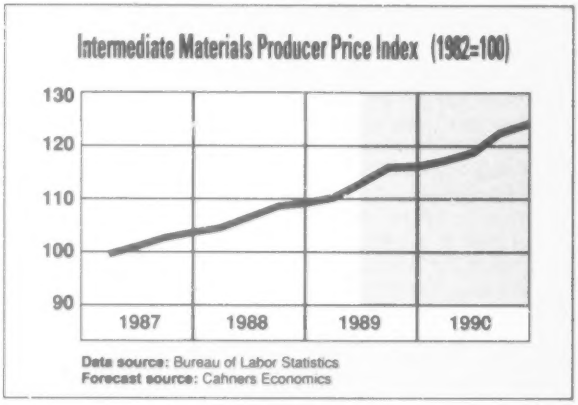
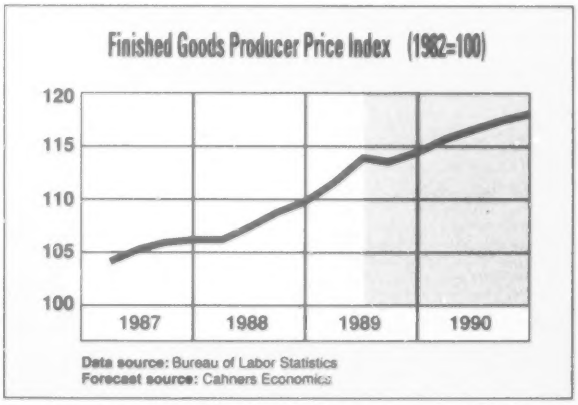
SUPPLY OUTLOOK

Intermediate goods prices drop

The 0.2% drop in the intermediate goods price index in July was partly due to a 1.3% decline in the energy goods category, which had inched down in the month before. Prices for intermediate goods other than foods and energy dropped 0.2%, the same as in June. Prices for manufacturing materials continued to decline on a broad front in July. The index for nondurable manufacturing materials fell 0.7% for the second consecutive month. The July decrease was lead by industrial chemicals, plastic resins and materials, and fertilizer materials. Prices were also lower for paper and paint materials.



After reaching 5.5% last year, the inflation rate for intermediate materials will inch up to 6.2% in 1989.



Inflation at the producer level should not exceed 5.0% this year and decline to just over 3.0% in 1990.

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